INTRODUCTION

The County Executive Office (CEO) is pleased to provide you with the FY 2004-05 Proposed Budget. This document reflects the CEO recommendations to the Board of Supervisors on Orange County's disciplined approach to fiscal management and is consistent with the County's Strategic Financial Planning process. The budget recommendations will be presented at a public budget workshop on May 28, 2004 and discussed at public budget hearing scheduled to begin on June 15, 2004.

The FY 2004-05 Proposed Budget reflects the impacts of the local, state and national economies, limited revenue growth and the rising cost of doing business. Although impacted by external factors, the County's local economy continues to be strong and diverse. As of February, the FY 2004-05 State Budgets faced a $17 billion funding gap. This budget proposal reflects the impacts of the Governor's January budget and will be updated based on the May Revise.

This introduction contains a guide to reading the budget document, a brief description of the County's form of government, Supervisorial Districts, mission statement and the County's Corporate Management System. This report reviews the State budget and economic factors influencing the County budget, provides summary budget information, and issues in various program areas of the budget.

I. A CITIZEN'S GUIDE TO READING THE BUDGET DOCUMENT

This document includes information that provides readers with a greater understanding of each department's mission, organizational structure, and performance results as a narrative context for the budget amounts. The introduction section contains several charts and tables, which provide an overview of issues affecting the budget, sources and uses of funds and budgeted positions. Following the introduction are sections that present each department and fund in the County's seven program areas. The seven program areas are:

1. Public Protection
2. Community Services
3. Infrastructure and Environmental Resources
4. General Government Services
5. Capital Improvements
6. Debt Service
7. Insurance, Reserves and Miscellaneous

The presentation for each department within the seven program areas includes:

An *Operational Summary* including:

- Mission
- Budget at a Glance
- Strategic Goals
- Key Outcome Indicators (Performance Measures) (see following paragraph)
- Key Accomplishments of the current year

An *Organizational Summary* including:

- Overview Organization Chart with three levels of detail for most departments
- Description of each major activity
- Ten-year staffing trend chart with highlights of staffing changes

A FY 2004-05 *Budget Summary* including:

- Department's plan for support of the County's strategic priorities
- Changes included in the base budget
- Recap of the department budget
- Highlights of the key budget trends
- A matrix that shows all of the budget units under the department's control

Readers looking for budget information for a specific department can use the Index near the end of the book. Departments are listed in alphabetical order with the page number of that department's budget information.

All County departments prepare annual business plans that serve two key purposes: Communicating the value that the department brings to the community and outcome indicators that measure how it is doing. A business plan sets forth long-term goals, identifies strategies for making progress on those goals during the coming year and identifies how success will be measured by using outcome indicators (performance measures). Some of the key outcome indicators have changed this year because of an ongoing review to ensure consistency with the departmental mission and goals. It is the intent that outcome indicator changes will be minimized so the reader of the business plans and this budget document can consistently observe trends and progress in meeting objectives.

Following the seven program areas is an appendix for readers who desire an additional level of budget detail. This includes each department's total budget broken down by major revenue and expense category and that same level of revenue and appropriation detail for each of the activities within the department.

II. ORGANIZATIONAL OVERVIEW

The Orange County's FY 2004-05 Proposed Budget presents the County's financial capacity and priorities in providing public safety and health, social services, environmental, and regional planning services for its residents. The County provides the public with a comprehensive array of public services through its departments and through comprehensive community partnerships with public, private and non-profit agencies. During the past year, the County Executive Office (CEO) was reorganized for increased effectiveness. Human Resources, formerly part of the CEO, became a separate department. The Planning Department was merged into the Public Facilities & Resources Department to create the Resources & Development Management Department.

FORM OF GOVERNMENT

The County is a charter County as a result of the March 5, 2002 voter approval of Measure V that provides for an electoral process to fill mid-term vacancies on the Board of Supervisors. Before Measure V as a general law County, mid-term vacancies would otherwise be filled by gubernatorial appointment. In all other respects, the County is like a general law County. A five-member Board of Supervisors, each of who serve four-year terms and annually elect a Chairman and Vice Chairman, governs the County. The supervisors represent districts that are each equal in population. The members of the Board of Supervisors by district are as follows:

THOMAS W. WILSON, *CHAIRMAN*, from the Fifth District representing the communities of Aliso Viejo, Dana Point, Laguna Beach, Laguna Hills, Laguna Niguel, Laguna Woods, Lake Forest, Mission Viejo, San Clemente, San Juan Capistrano and Rancho Santa Margarita.

JAMES W. SILVA, *VICE CHAIRMAN*, from the Second District, representing the communities of Costa Mesa, Cypress, Fountain Valley, Huntington Beach, La Palma, Los Alamitos, Newport Beach, Seal Beach, Stanton, and portions of Garden Grove.

CHARLES V. SMITH, from the First District, representing the communities of Santa Ana, Westminster, and portions of Garden Grove.

BILL CAMPBELL, from the Third District, representing the communities of Brea, Irvine, Orange, Villa Park, Yorba Linda, Tustin and portions of Anaheim.

CHRIS NORBY, from the Fourth District, representing the communities of Buena Park, Fullerton, La Habra, Placentia and portions of Anaheim.

COUNTY MISSION STATEMENT

In 1996, the County adopted its first mission statement to define Orange County government, its organizational focus and core businesses. The County's mission statement reads:

The County of Orange is a collection of dedicated, public-spirited individuals, who together comprise a regional service provider and planning agency committed to maximizing resources and improving the quality of life for residents in Orange County. Our core businesses are public safety, public health, environmental protection, regional planning, public assistance, social services and aviation.

The County is committed to providing Orange County residents with the highest quality programs and services as articulated in its mission statement. Supporting this mission statement is a series of guiding principles that frame how the County operates and prioritizes its resources:

- RELY ON THE STRATEGIC FINANCIAL PLAN to make day-to-day decisions that consistently move the County toward its long-term goals.
- VALUE OUR WORKFORCE to ensure that citizens are served by a professional and dedicated workforce.
- ENHANCE TECHNOLOGY for productivity and service delivery to use modern methods to reduce costs and improve services.

- COMMUNICATE COUNTY PRIORITIES to ensure that our employees and partners understand how the County is achieving its long-term goals.

III. FINANCIAL OUTLOOK FOR FY 2003-04

Two indicators of the state of the Orange County economy are: how well the local economy is performing relative to surrounding counties, the state and the nation (i.e., External Indicators) and; how well the local economy is performing relative to its own historical trends (i.e., Internal Indicators). In terms of the external indicators, Orange County's economy routinely out-performs local surrounding counties, the state, and national economies (in annual percentage growth), and, in fact, ranks higher (in absolute dollars) than the economies of the majority of the countries in the world. Current external indicators show that despite the sluggishness of the current local economy, conditions in Orange County remain relatively favorable when compared to surrounding counties, the state and the nation. However the magnitude of these favorable conditions and trends is beginning to diminish as the rate of economic growth in surrounding counties, particularly in the inland empire, begins to outpace the rate of growth in Orange County. In terms of internal (historical) trends, current and projected indicators suggest that the recovery of the Orange County economy will remain steady but slow in 2004. This section provides various external and internal indicators that describe the current and projected outlook of the Orange County economy.

The growth in Real Gross County Product (a measure of the value of goods and services produced in one year and an indicator of the strength of the local economy) is forecasted by Chapman University to increase by 6.51% in 2004 and reach $142.4 billion. This compares favorably to an expected increase in Gross State Product (for the state of California) of 5.59%, and an increase in Gross Domestic Product of 6.93% at the national level during the same time period. Comparisons of Orange County's projected 2004 Gross County Product (GCP) relative to prior years, shows a steady recovery of GCP percentage growth relative to the "boom years" of the late 1990's. For example, GCP increased by 6.43% in 1999, increased by 7.57% in 2000, dropped to a 3.35% increase in 2001; increased by 3.73% in 2002, increased by 4.53% in 2003, and is projected to increase by 6.51% in 2004.

Orange County's unemployment rate continues to be one of the lowest in the State, and is below that of all surrounding Southern California counties, the state of California and the nation. In March 2004 unemployment rates for the U.S., California and Orange County were recorded at 5.7%, 6.6%, and 3.6% respectively. In March 2004 rates for surrounding counties in Southern California were 6.1% (for Los Angeles County), 5.7% (for Riverside County), 5.6% (for San Bernardino County) and 4.1% (for San Diego County). Comparisons of Orange County's unemployment rates from January 2004 through March 2004 were consistent at 3.6% for each of the three successive months. Similarly, historical point-in-time unemployment rates in Orange County during the month of March of 2000, 2001, 2002, 2003, and 2004 show a reasonably favorable recent trend of 2.5%, 2.4%, 4.0%, 3.9% and 3.6%, respectively.

According to Chapman University, Orange County's job growth is expected to increase by 1.7% in 2004 and result in approximately 24,460 more jobs. This compares favorably, in percentage growth, with the State of California at 1.1% during the same time period. Historically, job growth in Orange County has been steady although still somewhat weak relative to the late 1990's. From 2000 to 2004 job growth in Orange County was 3.2% in 2000, 1.8% in 2001, -0.8% in 2002, 0.2% in 2003 and is projected to reach 1.7% in 2004.

Inflation, as measured by the Consumer Price Index (CPI), is expected to remain moderately low in Orange County, despite being slightly higher than the CPI at the state and national levels in 2004. Chapman University projects the CPI at the national level to increase by 2.5%, in California by 2.7%, and in Orange County by 2.9% in 2004. Comparisons of Orange County's historical CPI trends from 2000 to 2004 are, again, relatively favorable at 3.3%, 3.4%, 2.8%, 2.8%, and 2.9%, respectively.

According to DataQuick Information Systems, in March 2004 the median price for new and existing homes in Orange County increased by 23.1% (relative to March 2003), and reached $485,000. This compares to increases of 29.3% for Los Angeles County, 17.1% for San Diego County, 26.6% for Riverside County, and 20.8% for San Bernardino County. Housing appreciation in Orange County, although not as great as in Los Angeles and Riverside counties, has been rapid in response to the high demand for housing caused, in part, by low interest rates and a tight supply of housing. Historically, point-in-time home sale price increases in Orange County for the month of March exclusively are 12.1% for March 2000, 12.3% for March 2001, 13.7% for March 2002, 18.7% for March 2003, and 23.1% for March 2004. For the future, Chapman University is projecting that while housing appreciation will slow down, housing affordability (compared to other parts of the country) will continue to remain low.

Median family incomes were adjusted ("Re-benched") in 2003 by the U.S. Department of Housing and Urban Development (HUD) to comply with actual data collected during the 2000 Census. Orange County's adjusted (HUD) median family income is projected to reach $74,200 in 2004. This compares to $52,500 for Los Angeles County, $63,400 for San Diego County, $54,300 for Riverside County, $62,500 for the state of California and $57,500 for the U.S during the same time period.

Taxable sales in Orange County are forecast by Chapman University to increase by 4.4% in 2004. This compares to an increase of 3.7% for the State of California. Historically, taxable sales in Orange County increased by 10.1% in 2000, by 0.3% in 2001, by 0.7% in 2002, by 3.3% in 2003 and by 4.4% in 2004.

In summary, economic growth in Orange County continues to look favorable relative to surrounding counties, the State and the nation. However, the magnitude of the favorable trends is beginning to diminish as rate of growth in some surrounding counties (for example in volume of home sales and resale prices) begins to outpace the rate of growth in Orange County. Second, historical trends (specific to Orange County) suggest that the recovery of the local economy is steady but slow.

STATE LEGISLATION AND BUDGET

The Governor's January budget addressed an estimated FY 2004-05 shortfall of $17 billion ($2 billion from the current year and $15 billion for the budget year) as a result of a continuing imbalance between spending and revenues. The budget plan proposed to deal with the shortfall using a combination of spending reductions in most program areas, a new shift of local government property taxes and borrowing. Many of the spending reductions will affect programs and services provided to the local community by the County and are included in the County's recommended budget. Specific program impacts are included in Section IV of this report.

The May revise was scheduled for release just as this document was going to print. Anticipated strategies for balancing the $15 billion for FY 04-05 included the following:

- $3 billion from the 2004 Deficit Bond Proceeds
- $1 billion is annual debt service savings
- $2 billion from slower growth in K-12 education spending
- $2 billion from Higher Education and Transportation programs
- $1.3 billion from local governments revenue shift
- $3 billion from Indian tribes, prisons, other funding shifts and reductions
- $3 billion from Health & Welfare, increased revenue assumptions and other savings.

Many of these strategies are for one or two years and would need to be replaced by other solutions in future years. On May 12, 2004 the Governor announced the details of the agreement with local government leaders on the $1.3 billion for two years. The details include:

- A reduction in Vehicle License Fees (VLF) to local governments replaced by property taxes. In the first two years, the property taxes would be reduced by $1.3 billion per year:
  - $350 million from Counties (Orange County share estimated at $28 million)
  - $350 million from Cities
  - $250 million from Redevelopment Districts (Orange County share estimated at $1.7 million)
  - $350 million from Special Districts
- The November 2004 ballot would include a proposed constitutional amendment to protect local government revenues from future raids by the State.
- Mandate relief would provide that:
  - Prior, unpaid claims would be paid over a period of five years beginning in FY 2006-07.
  - New mandates would be funded in the following budget year or if not funded be repealed.

The CEO will continue to monitor the State budget process as the Governor and the Legislature work together to finalize the State budget. Further changes that affect the County budget will be incorporated as they become known.

MAJOR REVENUE AND EXPENSE ASSUMPTIONS

The County budget includes a wide variety of funding sources:

- State and Federal funding sources are estimated by departments based on established funding allocation formulas and caseload projections and the latest State budget information.
- Basic secured and unsecured property taxes are projected to increase by 6%. The two-percent assessment appeals case recently heard by the appeals court ruled in the County's favor. The recommended budget assumes that this ruling stands.
- Vehicle license fees are projected to increase by 6% based on State projections, Chapman University forecasts and trend data. In addition, the intercept of a portion of the motor vehicle license fees for the County's 1995 Refunding Recovery Bonds continues at $28.3 million.
- Sales tax revenue to the general fund is projected to increase by 6% based on estimates by Chapman University; Hinderliter, De Llamas & Associates (sales tax consultant to the County) and the State Board of Equalization.
- Health & Welfare Realignment revenue from the State allocated to Health, Mental Health, Social Services and Probation is projected to increase only 3% from FY 2002-03 estimated amounts and are not keeping pace with program cost increases.
- The one-half cent Public Safety Sales Tax of $224 million (allocated 80% to the Sheriff and 20% to the District Attorney) is projected to be 5% greater than the FY 2003-04 estimated amount. The Orange County Fire Authority currently receives none of these funds and is interested in receiving a portion of these funds in the future. The recommended budget assumes the current distribution formula.
- The interest rate on cash balances in the County Investment Pool administered by the County Treasurer is expected to be 1.4%, an increase from the average 1.07% rate estimated for FY 2003-04.
- Substance Abuse and Crime Prevention Act (Proposition 36) funds are estimated to be $8 million, about the same amount as the previous year. Allocation to participating departments is:
  - $5.6 million to Health Care Agency
  - $1.5 million to Probation
  - $0.45 million to District Attorney
  - $0.45 million to Public Defender

On the expense side:

- Labor costs are centrally calculated based on approved positions, historical position vacancy factors no base building wage increase subject to approval by the Board of Supervisors as agreements with the various labor bargaining units are completed. Merit increases for certain represented employees are budgeted based on the incumbent salary step level with actual awards based on the employees' annual performance review. There are no Performance Incentive Pay (PIP) or Management Performance Program (MPP) pay increases budgeted.
- Retirement costs have increased significantly for general and safety employees. In total, retirement costs for the County in FY 2004-05 are budgeted at $183 million, an increase of nearly 30%.
- Health insurance increases are expected to average 20%.
- Inflation on other services and supplies is generally estimated at 3% with higher rates for medical supplies.

2004 STRATEGIC FINANCIAL PLAN

The Strategic Financial Plan process provides the framework for balancing available resources with operating requirements, implementing new programs and facilities and serves as the foundation for the annual budget. This framework enables the Board to make annual funding decisions within the context of a comprehensive, long-term perspective. Since 1998, the Strategic Financial Plan has been annually updated to review revenue and expense forecasts. New priorities are identified and considered every two years if funding is available as part of a comprehensive update of the plan.

The Strategic Financial Plan contains four elements:

- Economic Forecast
- General Purpose Revenue and Fund Balance Available Forecast
- Program cost forecast
- Strategic Priorities

The 2004 SFP does not incorporate local government funding proposals currently under discussion in Sacramento. The SFP does include specific program impacts included in the Governor's FY 2004-05 budget presented to the Legislature in January 2004.

There are two new aspects to the 2004 Strategic Financial Plan:

- The first year of the SFP, FY 2004-05 is the Preliminary FY 2004-05 Budget
- The Preliminary FY 2004-05 Budget and the four remaining years of the plan were prepared using the concept of net county cost limits (see Section VII).

Because the departments forecasted that the future cost of on-going baseline activities will exceed their NCC Limits, the 2004 SFP departmental forecasts and the Preliminary FY 2004-05 Budget represent significant reductions in the ability of the County to maintain a base level of service to the public.

The consequences of not having resources to fund all baseline operations in FY 2004-05 include:

- Closure of 100 juvenile institution beds
- Closure of two more Youth and Family resource centers, leaving two open out of a one-time total of six
- Reduced level of adult parolee monitoring
- Reduction of mental health services for indigents
- Reduction in Alcohol and Drug treatment programs
- Reduction in Family Health clinic services
- Reductions to programs targeted to assist senior citizens
- Reduction to County funds for the Human Relation Commission

Even in a year in which there is forecast a shortage of revenue to operate baseline services, it is important to identify major new challenges facing the County in future years. These items are called Strategic Priorities and were the subject of a department head workshop held on April 6, 2004. The department heads prioritized the 43 Strategic Priorities and came up with a top ten list, in alphabetic order:

- 800 Megahertz Communications System Upgrade
- Affordable Housing
- Bio-terrorism and Public Health Preparedness
- County Accounting and Personnel System (CAPS) Replacement
- Credit and Debt Management Strategy - Debt Reduction
- High Tech Crime and Identity Theft Units
- Los Pinos Wastewater Mitigation
- Preventive Maintenance
- Water Quality and Watershed Protection
- Youth and Family Resource Centers

On May 7, 2004 the Board held a special meeting on the 2004 Strategic Financial Plan and directed staff on the selection of balancing scenarios. The Board selected a scenario that limits the use of reserves to the potential two-year revenue shift to the State and requires program and service reductions to balance to available financing for the five year plan period. Other contingency, emergency and debt defeasance reserves remain intact. This balancing strategy is incorporated into the FY 2004-05 budget recommendations.

IV. OVERVIEW OF THE FY 2004-05 RECOMMENDED COUNTY BUDGET

BASIS OF BUDGETING

The County's budget, as is its accounting system, is based on the modified accrual system. The fiscal year begins on July 1. Revenues are budgeted as they are expected to be received or as they are applicable to the fiscal year. Fund balance available (FBA) is estimated and adjusted for increases or decreases to reserves. Revenues plus fund balance available equals total available financing. Consistent with the Governmental Accounting Standards Board (GASB) Ruling 33, only revenues expected to be received within 60 days of the end of the fiscal year are included. Expenses are budgeted at an amount sufficient for 12 months if they are ongoing and in their full amount if they are one-time items. Expenses and increases to reserves must be balanced with available financing.

BUDGET DEVELOPMENT

In late December 2003, the CEO issued the following budget development policies and guidelines to all County departments as a starting point for the FY 2004-05 budget development:

Consistency with Strategic Financial Plan and Business Plan Concepts: Base operating budget requests shall be consistent with the priorities and operational plans contained in the 2003 Strategic Financial Plan (SFP) and the approved departmental business plans as resources are available. *This year is a transition year* to an integrated SFP and multi-year budget process. Department heads are responsible for using these planning processes and program outcome indicators to evaluate existing programs and redirect existing resources as needed for greater efficiency, to reduce cost and minimize the requests for additional resources.

Salaries & Employee Benefits: The Salary and Benefits Forecasting System (SBFS) in BRASS will set the regular salary and employee benefits base budgets. The vacancy factor will be set at the historical actual vacancy rate based on the 12 months ending December 2003.

Budgeted extra-help positions must comply with the MOU provisions. Those that do not are to be deleted with a corresponding reduction in the extra-help account or converted to regular positions if the department justifies the continuing work and absorbs the additional cost.

Services & Supplies: Services and supplies shall be budgeted at the same level as actual use during last fiscal year and current year projections to the extent they are necessary to support business plan and SFP goals.

Fees and Charges for Services: Departments are responsible for identifying total cost for programs with fees and to set fees at full cost recovery for the entire fiscal year. Full cost recovery includes direct and indirect costs, overhead and depreciation for the period during which the fee will be in effect. If fees are set at less than full cost recovery, the reason for subsidy should be given. Fees that are set by State law shall be implemented in accordance with those laws.

Revenue and Grants: Program revenues (e.g. State and Federal programs revenues) are to be used to offset the department's proportional share of operating costs to the full extent of the program regulations. Local matching funds should normally be at the legal minimum so that the general fund subsidy (backfill) is minimized. Program revenues are to be used for caseload growth.

One-time revenues shall be limited for use on non-recurring items including start-up costs, program or reserve stabilization, capital expenses and early debt retirement.

New revenue sources pending legislation or grant approval should not be included in the base budget request. They should be considered during the quarterly budget report process (i.e. when legislation is passed or grants awarded).

Net County Cost (NCC): NCC limits for the next five years are based on the current budget, adjusted for one-time items and Step 2 items (non-core, non-mandated, over match items) recommended for reduction in the 2003 SFP. These limits generally hold all departments level for two years, then grow at a modest rate (about 3% per year) based on the anticipated growth rate in general purpose revenues. There is a continued need to carefully manage the growth in the use of general purpose revenues.

Departments shall submit budget requests at or below the NCC limits. The CEO/Budget Office is authorized to automatically reduce, if necessary, the appropriation requests of any budget that exceeds the established NCC limit.

Reserves and Contingencies: The County General fund currently contains formal reserves, appropriations for contingencies, appropriated reserve-type funds and reserves held by others. The purpose of these reserves is to protect programs and services to the community from temporary revenue shortfalls and provide for unpredicted, sudden and unavoidable one-time expenditures. Certain departments and non-general funds have other reserves dedicated to specific programs and uses. The detailed inventory of these reserves and the policy for creation, maintenance and use of these reserves is currently being developed.

Balanced Budget: The general fund requirements will be balanced to available resources.

Funds outside the General Fund: Budgets for funds outside the General Fund are to be balanced to Available Financing without General Fund subsidy. Available Financing shall be determined by an accurate projection on June 30 Fund Balance Available (FBA). Available Financing includes FBA, a realistic estimate of budget year revenues and any planned decreases to reserves. If available financing exceeds requirements, the difference should be put into reserves for use in the future.

Augmentations (requests for new or restored resources): All augmentation requests must include outcome indicators that clearly outline the department's intended outcome(s) resulting from the additional resources. They must be ranked in order of the department's priority for approval. The department head must certify that all potential alternatives for redirecting existing resources have been examined and that there are no lower priority items that can be reduced or eliminated in order to free up existing resources. This certification will be contained in the budget cover letter from the department head to the CEO. Long-term vacant positions (vacant 18 months or more) shall be used in all departments before new positions are added.

Approved FY 2002-03 and FY 2003-04 augmentations will undergo an outcome indicator review as a condition of continued funding. Departments will report on outcome indicator results (to the extent data is available by budget submittal due date) of the performance expectations in a format that will be provided as a separate package. These augmentations will be funded for FY 2004-05 if the CEO and department agree that:

- They meet the performance expectations
- They merit continuation
- They are still relevant to the department's business plan
- Sufficient funding exists

Program Budgets outside the General Fund: It is the department head's responsibility to ensure that the proposed use of program funds is consistent with the available financing and legal restrictions on funds, the department's business plan, the County's strategic priorities and has been coordinated with the appropriate stakeholder groups external to the County.

In context of these policies and guidelines, departments prepare current year projections of expenses and revenues and requests for the next fiscal year. The CEO/County Budget Offices reviews the requests, meets and discusses the requests with the department and prepares final recommendations for the Board. These recommendations are presented to the public via a budget workshop and then to the Board of Supervisors during public budget hearings. Operating and capital budgets are prepared in this single process and presented together in this budget book.

Preceding the budget program sections, the following charts and tables are provided as an overview of the budget:

1. Total County Budget by General Purpose Revenues, Other General Funds and Dedicated Revenues
2. Total County Budget - All Funds Controlled by the County Board of Supervisors
3. Total County Revenues by Source
4. Total County Appropriations by Program
5. General Fund Sources & Uses of Funds
6. General Fund Appropriations by Program
7. General Purpose Revenues (including General Fund Balance Available (FBA))
8. General Fund Net County Cost by Program
9. Public Safety Sales Tax
10. Health & Welfare Realignment Sources & Uses
11. Authorized Positions by Program
12. Total County Budget Comparison to Prior Fiscal Year by Program and Department
13. Total Budgeted Positions Summary by Program and Department
14. County Organization Chart

HIGHLIGHTS OF THE FY 2004-05 FINAL BUDGET

Total Budget:

- Total County Base Budget is $4.61 billion, decrease of 5% from the prior year adopted budget excluding prior year appropriations for Pension Obligation Bonds that were not issued.
- Total budgeted positions are 17,372 in the base budget, a reduction of 379 or 2%. Approval of recommended restoration and other augmentations would increase the total position count by 120, partially offsetting the 379 reduction.
- Total General Fund Budget is $2.5 billion, an increase of 0.7%.
- General Purpose Revenues (excluding General Fund Balance Available) total $428 million, an increase of 0.5%.
- General Fund Balance Available (FBA) is projected to be $107.1 million by the end of the current year (TABLE A):

TABLE A

	FY 2001-02 Final	FY 2002-03 Final	FY 2003-04 Projected
Beginning FBA July 1	$ 146.0	$ 152.6	$ 163.8
Changes to Reserves	(32.5)	22.1	(4.0)
Revenues	2,041.5	2,187.1	2,297.0
Transfer to PSST fund	N/A	N/A	(16.5)
Available Financing	2,155.0	2,361.8	2,440.3
Expenditures/Encumbrances	(2,017.0)	(2,226.4)	(2,347.3)
Changes in Encumbrances	14.6	27.9	14.1
Other adjustments	(0.0)	0.5	0.0
Ending FBA June 30	$ 152.6	$ 163.8	$ 107.1

- Workers' Compensation costs are projected to increase by 17%. The State reforms recently announced will have little affect on the County due to the County's self-insurance status and pre-existing, continuing efforts to control injuries and costs.
- Property & Casualty Insurance costs are discounted by 40% in order to adjust reserve levels.

Specific Program Highlights:

Public Protection

Probation

- Loss of $12.5 in Temporary Assistance to Needy Families (TANF) funds ($16.47 million in FY 05-06) is the largest single departmental impact of the January Governor's proposed budget.
- Department will have to close 100 juvenile institution beds.
- Department will have to close two more Youth & Family Resource Centers (central and north County).
- Department will have to reduce field and other support services.

Public Defender

- Potential reduction in State funding to the Courts for Public Defender services in Dependency Court.

Sheriff

- Will fund operating cost of Theo Lacy Jail Phase B with Blue Ribbon Committee identified savings, resource shifts and possible alternative revenue.
- Uses Federal Homeland security funds for overtime and equipment.

- The Sheriff-Communication budget includes reimbursement from the cities, Fire Authority and County agencies that will share in the cost of operating and maintaining the 800 MHz Communication Network.

Trial Court Funding

- State sweep of undesignated Court fees ($2.7 m) that would require a general fund backfill to fulfill the TCF MOE payment.

Community Services

Department of Child Support Services

- For the second year the State will charge Counties with a share of the Federal system penalty. The County will use General Fund reserves for this payment ($4.3 million).
- The department's budget recognizes operational savings from centralized Information Technology unit.

Health Care Agency

- Services recommended for reduction due to State budget actions and lack of ongoing local funds include:
  - Mental Health services to indigents and older adults
  - California Children's Services
  - Alcohol & drug abuse prevention
  - Family health community & clinic services
  - Public Health HIV/STD program
  - Specialized Nursing program
  - Children & Youth Services
- Services recommended for restoration (above the NCC limits) include:
  - Adult mental health residential and indigent care
  - Community nursing
  - Disease control
  - One Deputy Public Administrator/Public Guardian position
- Consistent with the provisions of Measure H, the Tobacco Settlement Funds Initiative, approved by the voters in November 2000, total funds including carryover are estimated at $36 million to be allocated to the following services:
  - 19% Health care services for seniors and persons with disabilities
  - 23% Emergency room physicians and on-call specialists
  - 12% Tobacco related disease prevention and control
  - 20% Nonprofit community clinics
  - 6% Proportional reimbursement to hospitals for charity care
  - 20% Public safety including a drug/alcohol rehabilitation program at Theo Lacy jail (64 secure beds)

  Use of all Measure H Tobacco Settlement Funds is monitored for strict adherence to the provisions of the initiative. Actual Tobacco Settlement Funds received will be allocated by the above percentages, whether they fall below, meet or exceed budget amounts.

Social Service Agency

- State discontinues funding for In-Home Supportive Services:
  - Wages above minimum wage ($5.7 m)
  - Residual program ($3.2 m)
  - Public Authority funding
- No County general fund backfill for CalWorks and Foster Care Child Support revenue reductions by the State ($2.8 million combined).

Housing & Community Services

- Continues phased reductions to Office on Aging and the Human Relations Commission

Infrastructure and Environmental Resources

Resources & Development Management Department

- The recent merger of the Public Facilities and Resources Department (PFRD) and Planning and Development Services Department (PDSD) into the new Resources & Development Management Department (RDMD) intends to realize operational efficiencies and allow the single agency to handle technical and policy issues in a more proactive fashion.
- The Planning Division of RDMD will continue as a separate budget. The division projects a decline in permit activity workload. To address this shortfall, the reduction of 23 positions in FY 04/05 is proposed.
- The Building & Safety subsidy from the General Fund is reduced to $916,857.

- The County will use over $6 million in HBP funds to refurbish County parks. The funds are part of the $13.9 million in Proposition 40 allotments that the Board voted to utilize for this purpose.
- The Dana Point Harbor Revitalization project is scheduled to begin, possibly bond financed in the amount of $16.5 million.
- A reduction of $2.7 million in the Agricultural Commissioner's budget reflects the termination of the Red Imported Fire Ant (RIFA) program. The program was terminated after the state discontinued its funding.
- Watershed and Coastal Resources (WCR) has set aside $850,000 for modification of existing sediment basin and water in lower San Diego Creek for TDML compliance.
- The County will realize energy cost savings as the Central Utility Facility Phases I and II are completed.
- Continuation of the Board approved pilot preventative maintenance program. The program went into full operation in November 2003.

Orange County Public Library (OCPL)

- OCPL will add two positions in preparation for the opening of the Wheeler Branch Library in Irvine.
- OCPL will implement technological upgrades which will make all County libraries "hot spots" for wireless telecommunications connections for suitably equipped personal computers, PDA's, etc.

Integrated Waste Management Department (IWMD)

- Frank R. Bowerman Landfill will begin Phase 7B construction to allow for continued expansion of the landfill while preserving future capacity. Additionally, Phase 7B is part of the long-range plan to stabilize the landslide.
- Landfill Information Systems Technology Study (LISTS) Phase I was implemented in FY 03/04 and IWMD will implement Phase II and III in FY04/05. This new system will improve customer service, improve functionality and data accuracy and provide enhanced landfill data management and reporting.
- IWMD will continue to support the County General Fund in FY04/05 with $10.2 million for bankruptcy recovery debt obligations.
- IWMD will continue strategic planning in the Regional Landfill Options for Orange County (RELOOC) project that looks beyond current capacity and plans for future disposal needs of the County.

John Wayne Airport

- Capital improvements for John Wayne Airport reduced to increase reserves for funding of Settlement Agreement Implementation Plan (SAIP) to add six new gates and to offset increased maintenance expense.
- Adds five positions for maintenance, purchasing & administration.

General Government

- Assessor Department received $6.8 million for FY 03/04 from the State Property Tax Administration Grant Program (AB 589) to enhance property tax administration. These funds are budgeted separately in a newly established fund.
- Incorporates the County Executive Officer's reorganization plan that brings greater accountability and more effective management.
- Funding for the Comprehensive Economic Development Program, including Arts Orange County, Film Commission, OC Business Council, and Tourism is recommended for deletion ($875,000 formerly in the CEO budget).
- Office of Protocol is recommended for closure as one-time funding for this Agency will be exhausted at fiscal year-end.
- Registrar of Voters budget includes nearly $2.8 million in State and Federal funding for maintenance, system support, and training for the Direct Record Electronic (DRE) voting system.
- Human Resources, formerly a part of the County Executive Office, is now a separate department.

Capital Projects

- Construction contract was awarded for the Youth Leadership Academy at Juvenile Hall (120 beds; $15.4 million). An additional $1.2 million is budgeted for contingencies and contract change orders.
- Construction is underway for the 60-Bed Expansion at Juvenile Hall. Budget includes $.4 million in appropriations and $1.8 million in related State Construction Grant funds.

- Weapons screening improvements will be provided at three Orange County Justice Centers ($.8 million) from General Funds plus one funded by the Court Facilities Fund ($.2 million)
- Seismic retrofit improvements will be made at the County Central Garage ($1 million). Project design was completed and project will advance toward construction.
- Continuation of floor-by-floor rehabilitation of the Central Justice Center is budgeted at $8.1 million for floors seven and eight.
- Sheriff-Coroner deferred maintenance projects are funded at $2.5 million.
- Other Sheriff-Coroner projects that total $1.3 million include: design cost of the Intake/Release Center Booking Loop Remodel, Loma Ridge assessment and feasibility study, and partial funding of the FY 04-05 Maintenance/Repair Plan for various Sheriff's facilities.
- Continued planning for South Court Construction.
- RDMD/Facilities Operations 04-05 Maintenance/Repair Plan is budgeted at $2.1 million for roof rehabilitation projects, elevator repairs and HVAC projects at various County buildings as well as Court facilities.
- Americans with Disabilities Act (ADA) compliance projects in various County facilities are budgeted at $1.9 million.

Debt

- Funds all debt obligation payments. Budgets displayed in Program VI include amounts for annual payments on the County's 1996 Recovery Certificates of Participation (COPS), 1995 Recovery Bonds, refunded debt financing of the Juvenile Justice Center, Manchester parking facilities, and debt financing of infrastructure improvements in the County's Assessment Districts, Community Facilities Districts and the Orange County Development Agency. Although the former County's Pension Obligation Bonds were economically defeased, this budget reflects the payments made by the trustee from escrow. This program also includes the debt associated with the County's Teeter program. This program also includes budgets for the $94 million set aside in the Debt Prepayment Fund. Debt related to specific operations such as John Wayne Airport and Integrated Waste Management is included in Program III where the operational budgets for those operations are also found. The County currently has no plans for temporary cash flow borrowing because there are sufficient general fund cash balances and reserves. Based on the County's Strategic Financial Plan and at current funding levels, the County is able to fulfill these debt obligations and sustain current and future services and operations.

Insurance, Reserves & Miscellaneous

- Incorporates increased cost of the County's employee benefit programs, including a projected 30% increase in the cost of retirement.
- Workers' Compensation rates continue to increase (FY 04-05 increased 20% from FY 03-04) due to increasing payment rates and reserve management. This increase is consistent with State trends. The impacts of the recent workers' compensation reform will not be known for approximately 12-24 months.
- Continue to reduce Property and Casualty insurance reserves by partially subsidizing liability self-insurance costs by 40% in FY 04-05.

V. SUMMARY

This budget serves as a realistic plan of resources available to carry out the County's core businesses and priorities. It is consistent with the County's mission and corporate management system including the strategic financial plan and departmental business plans. It follows the CEO budget policy guidelines, meets the majority of departmental requests, incorporates impacts of the State budget (May revise), increases resources for critical capital needs and meets important contingency fund and debt reduction goals.

VI. NEXT STEPS

A public workshop on this recommended budget is planned for May 28, 2004. The Board of Supervisors will hold public hearings regarding this budget starting June 15, 2004. Results of those hearings will be incorporated into this budget, which will be brought back to the Board for adoption on June 29, 2004. The new fiscal year begins on July 1, 2004. During the fiscal year, the CEO will present the Board with quarterly budget status reports and recommend appropriate changes as needed including changes which may arise from final County fund balances, final State budget impacts, new legislation, new grants awards, and other circumstances or conditions that may affect the budget.

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You may also review the budget document on-line at:

- http://www.oc.ca.gov/ceo/finance/